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To CERF Board Members:

This is the report on progress for the project “Risk Preferences and Portfolio Choice:

An Intra-household Perspective”, which I am pursuing during my CERF Fellowship.

In this project, we want to explore how risk preference is aggregated from individuals to households through intra-household bargaining. We have developed a model of household portfolio allocation and plan to structurally estimate it using detailed, longitudinal data for a representative sample of Australian households.

Before the estimation, we have conducted some summary statistics: (1) while the majority of the households report they jointly make the investment decision, we also find more households in which husbands are sole decision maker than households in which wives are sole decision maker. (2) We find the households with different household head structures are systematically difference in their economic variables such as income and age, as well as non-economic characteristics such as personality traits.

We plan to use the following 2-3 months to fully estimate the developed model. Our framework has the potential to shed light on a number of puzzles in household finance including the low stock market participation puzzle.

Although this project has still in an early stage, we have presented this project in several internal seminars to collect some useful comments, including University of Cambridge, University of Essex and London School of Economics. This work has also been presented in a special workshop “19th IZA/SOLE Transatlantic Meeting for Labor Economists” held by IZA.

Yours ever,

Weilong Zhang